

STATE OF ILLINOIS

ILLINOIS COMMERCE COMMISSION

ILLINOIS INDEPENDENT TELEPHONE
ASSOCIATION)

Petition for initiation and investigation of
the necessity of and the establishment of a
Universal Service Support Fund in accordance
With Section 13-301(d) of The Public Utilities
Act.)

Docket No. 00-0233

Cons.)

ILLINOIS COMMERCE COMMISSION
On Its Own Motion)

Investigation into the necessity of and, if
Appropriate, the establishment of a universal
Service support fund pursuant to Section
13-301(d) of the Public Utilities Act.)

Docket No. 00-0335

ILLINOIS COMMERCE COMMISSION
APR 20 3 13 PM '01
CHIEF CLERK'S OFFICE

DIRECT TESTIMONY

OF

MICHAEL W. STOKES

ON BEHALF OF

NEW WINDSOR TELEPHONE COMPANY

April 20, 2001

OFFICIAL FILE

ILL. C. C. DOCKET NO. 00-0233/0335
New Windsor
Telephone Co. DEPT. FILE 1
Witness _____
Date 6-19-01 Reporter CB

1 **Q. Please state your name and business address.**

2 A. My name is Michael W. Stokes. My business address is 993 Clocktower Dr., Ste A,
3 Springfield, Illinois 62704.

4 **Q. By whom are you employed and in what capacity?**

5 A. I am self-employed as a partner with Kiesling Associates LLP and am also a Certified
6 Public Accountant. In addition to our Springfield, Illinois office, the firm has offices
7 located in Wisconsin, Iowa and Colorado. The firm was founded in 1952 in Madison,
8 Wisconsin and is currently providing accounting, auditing, consulting and other financial
9 services to over 200 telecommunications and public utility entities.

10 **Q. Please outline your educational background and business experience.**

11 A. I graduated from the University of Illinois – Springfield in 1989 with a Bachelor degree
12 in Accountancy. Upon graduation, I became employed by Kiesling Associates LLP (the
13 firm) and worked there for over 4 years. My experience at the firm involved providing
14 accounting, auditing, regulatory reporting, budgeting, costing, and individual & corporate
15 income tax preparation primarily to small independent telephone companies. From 1993
16 through 1996, I was employed by McGladrey & Pullen CPA's (a big eight CPA firm) and
17 GROWMARK FS and serving also in the accounting services area. In 1996 I resigned
18 and began practicing as a sole practitioner CPA. I built a practice from 1996 to 2000 to
19 include four employees of which primarily provided audit, tax and accounting services to
20 telephone, cellular, cable TV, and contractor clients. In 2001, I merged my practice and
21 my employees with my previous employer Kiesling Associates LLP and was appointed
22 partner-in-charge of their existing Springfield, IL branch office. In this capacity, I

1 currently am responsible for day-to-day management and all audit and accounting
2 services provided from the Springfield office.

3 **Q. What is your relationship with New Windsor Telephone Company?**

4 A. As an independent CPA, I provide accounting, income tax, financial statement
5 preparation, and many other related accounting and regulatory services to the Company.

6 **Q. What is the purpose of your testimony?**

7 A. The purpose of my testimony is to present the results of an earnings analysis for New
8 Windsor Telephone Company. This analysis is being presented to determine whether the
9 Company qualifies for state Universal Service support based on its rate of return.

10 **Q. Does your testimony include any exhibits, and were these prepared by you or under
11 your direction?**

12 A. Yes, my testimony includes New Windsor Telephone Company Exhibit 1, Schedule 1.01.
13 and New Windsor Telephone Company Exhibit 1, Schedule 1.02 which were prepared
14 under my direction.

15 **Q. What is the source of the amounts used in the Company's earnings analysis?**

16 A. New Windsor Telephone Company Exhibit 1, Schedule 1.01, Page 1 of 3 attached to my
17 testimony shows the results of the Company's earnings analysis. The amounts used in
18 the earnings analysis were obtained from the Company's trial balance for calendar year
19 ended December 31, 2000, except for materials and supplies, line 2, which represents a
20 13 month average. The Company has provided a copy of this trial balance report
21 December 31, 2000 to Commission Staff in support of New Windsor Telephone
22 Company Exhibit 1, Schedule 1.01.

1 **Q. Please summarize the results of the Company's earnings analysis shown on New**
2 **Windsor Telephone Company Exhibit 1, Schedule 1.01, Page 1 of 3.**

3 A. This analysis shows that the Company has a return on rate base, or rate of return (ROR)
4 of 5.21 percent. This is shown on Line 23. This corresponds to a ROR Funding
5 Deficiency Including Income Taxes in the amount of \$129,551. This amount is shown on
6 Line 28. This means that the Company has a need for state Universal Service support
7 based solely on the Company's earnings level in the amount of \$129,551. These results
8 reflect an adjustment to total operating revenues by subtracting Illinois High Cost Fund
9 support on line 15, an adjustment to net regulated plant on line 1. These adjustments will
10 be explained below.

11 **Q. Please explain the adjustment in the amount of \$75,700 that you have made to**
12 **increase net regulated plant on line 1 of the earnings analysis.**

13 A. The purpose of this adjustment is to reflect known and measurable changes that will
14 occur to New Windsor Telephone Company's plant for current projects in the first half of
15 year 2001. These adjustments, as further explained in Exhibit 1, Schedule 1.02 are the
16 result from paid for switching upgrades in the amount of \$36,141, which work is now in
17 progress. New Windsor Telephone Company Exhibit 1, Schedule 1.03 and 1.04 are the
18 invoices which New Windsor Telephone Company has paid to Nortel Networks, Inc. for
19 these upgrades.

20 **Q. Are invoices which New Windsor Telephone Company has paid to Nortel Networks,**
21 **Inc. for the switch upgrades?**

22 A. Yes.

1 **Q. Does the Company's Trial Balance Report December 31, 2000 and Form 23A reflect**
2 **true and actual results?**

3 A. As stated in our Accountant's Report that is included in Form 23A as filed with the
4 Illinois Commerce Commission for the year 2000, we have prepared the financial
5 statements and supplementary information included in the prescribed form, Illinois
6 Commerce Commission Form 23A in accordance with Standards for Accounting and
7 Review Services issued by the American Institute of Certified Public Accountants. The
8 Company's financial statements and records are in accordance with Generally Accepted
9 Accounting Principles (GAAP) and FCC Part 32 accounting rules.

10 **Q. Are you aware of any other known and measurable changes to the Company's**
11 **actual calendar year 2000 results that would impact the earnings analysis?**

12 A. No. I am not aware of any other changes that are known and measurable.

13 **Q. Does New Windsor Telephone Company concur with Mr. Schoonmaker's recom-**
14 **mendation that its affordable rate be established as the current weighted average**
15 **rate for residential and business service?**

16 A. Yes, it does.

17 **Q. Please summarize your testimony.**

18 A. The earnings analysis for New Windsor Telephone Company shows a ROR Funding
19 Deficiency based on actual results for the year ending December 31, 2000 plus known
20 and measurable changes. The amount of this deficiency is \$129,551. Therefore, based
21 solely on the results of the Company's earnings analysis, New Windsor Telephone
22 Company should receive annual state Universal Service support in the amount of
23 \$129,551.

1 **Q. Does this conclude your direct testimony?**

2 **A. Yes, it does.**

New Windsor Telephone Company
Illinois Universal Service Funding Calculation
Based upon ICC Form 23A Report Data for December 31, 2000

<u>Line #</u>	<u>Description</u>	<u>Source</u>	<u>Amount</u>	<u>Adjustment</u>	<u>Adjusted Amount</u>
1	Net Regulated Plant	Form 23A, P 8, Net Plant	\$ 1,412,408	\$ 36,141	\$ 1,448,549
2	Materials and Supplies Inventory	Page 2, 13-Month Average	11,359		11,359
3	Customer Deposits	Form 23A, P 8, 4040	7,446	-	7,446
4	ADIT - Regulated Plant	Form 23A, P 8, 4100 + 4340	168,699	-	168,699
5	Rate Base before Working Capital	line 1 + line 2 - line 3 - line 4			1,283,763
6	Working Capital Requirement				
7	Total Operating Expenses	Form 23A, P 14, Total	436,531	-	436,531
8	Less: Depreciation Expense	Form 23A, P 13, 6560	124,476	-	124,476
9	Total WC Operating Expense	line 7 - line 8	312,055	-	312,055
10	WC OE Requirement	line 9 * 45 / 360			39,007
11	Commission-Ordered Cash Balance Requirement		-	-	-
12	Total Working Capital Requirement	line 10 + line 11			39,007
13	Total Rate Base	line 5 + line 12			1,322,770
14	Total Operating Revenues	Form 23A, P 11, Total	562,928	-	562,928
15	Less: Illinois High Cost Fund		12,048	-	12,048
16	Net Operating Revenues	line 14 - line 15	550,880	-	550,880
17	Total Operating Expenses	Form 23A, P 14, Total	436,531	-	436,531
18	Other Operating Inc and Exp - Net	Form 23A, P 15, 7100	-	-	-
19	Other Operating Taxes	Form 23A, P 15, 7240	1,845	-	1,845
20	Net Op Inc before Income Taxes	line 16 - lines 17, 18, & 19	112,504	-	112,504
21	Income Tax Expense	line 34			43,583
22	Net Operating Income	line 20 - line 21			68,921
23	Return on Rate Base	line 22 / line 13			5.21%
24	After-tax Cost of Capital				11.21%
25	Target Net Operating Income	line 24 * line 13			148,283
26	Adj to Achieve Target Return on RB	line 25 - line 22			79,362
27	Gross Revenue Conversion Factor	line 35			1.6324
28	ROR Funding Deficiency Including Inc Taxes	line 26 * line 27			129,551
29	Calculation of Income Tax Expense				
30	Net Op Inc before Inc Taxes	line 20			112,504
31	Illinois Inc & Rep Tax Expense	line 30 * 7.18%			8,078
32	Net Op Inc before Fed Inc Tax	line 30 - line 31			104,426
33	Federal Income Tax Expense	line 32 * 34.00%			35,505
34	Total Imputed Income Tax Expense	line 31 + line 33			43,583
35	Gross Revenue Conversion Factor	1 / ((1 - .0718) * (1 - .34))			1.6324

New Windsor Telephone Company
Illinois Universal Service Funding Calculation
Based upon ICC Form 23A Report Data for December 31, 2000
Material & Supplies Worksheet and Other Information

Line #

1	December-99	\$11,683
2	January-00	\$11,683
3	February-00	\$11,686
4	March-00	\$11,683
5	April-00	\$11,683
6	May-00	\$11,683
7	June-00	\$11,683
8	July-00	\$11,683
9	August-00	\$11,683
10	September-00	\$11,683
11	October-00	\$11,683
12	November-00	\$11,683
13	December-00	\$7,468
14	13 Month Average	\$11,359

Sale/Lease Back Arrangement
☒

The company does not have any sale(s)/lease back arrangement.

☐

The company does have sale(s)/lease back arrangement and has provided additional information to staff.

Lease Agreement with Affiliates
☒

The company does not have any lease agreements with affiliates.

☐

The company does have lease agreements with affiliates and has provided additional information to staff.

Trial Balances

The Company has provided a copy of its 12/31/2000 trial balance in support of the attached exhibits.

New Windsor Telephone Company
Illinois Universal Service Funding Calculation
Based upon ICC Form 23A Report Data for December 31, 2000
Operating Revenues By Category

<u>Line #</u>		<u>Source</u>	<u>Amount</u>
		Form 23A, P 10, Total Local	
1	Local Revenues	Network Service Revenues	\$ 57,471
2	State Subscriber Line Charges	Trial Balance 12/31/00	\$ 88,740
3	State Access Revenues	Trial Balance 12/31/00	\$ 135,658
4	State High Cost Support	Exhibit X, Line 15	\$ 12,048
5	State Special Access Revenues	Trial Balance 12/31/00	\$ 3,973
6	Total State Access & Local Revenues	Sum (Ln 1 - 5)	\$ 297,890
7	Federal Subscriber Lines Charges	Trial Balance 12/31/00	\$ 29,633
8	Federal Access Revenues	Trial Balance 12/31/00	\$ 125,818
9	Federal High Cost Support	Trial Balance 12/31/00	\$ 85,584
10	Federal Special Access Revenues	Trial Balance 12/31/00	\$ 8,866
11	Total Federal Access Revenues	Sum (Ln 7 - 10)	\$ 249,901
12	Misc Revenues	Trial Balance 12/31/00	\$ 15,137
13	Total Operating Revenues	Ln 6 + Ln 11 + Ln 12	<u>\$ 562,928</u>

New Windsor Telephone Company
Summary of Adjustments

Adjustment 1

	<u>Dr.</u>	<u>Cr.</u>
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RTB Stock

none

To record RTB Class B stock in rate base.

Adjustment 2

To record Nortel Networks contract for DMS-10 SR-ten switching equipment (not delivered as of 12/31/00).

Contract amount - detail

attached

\$ 36,141

	<u>\$ 36,141</u>
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NORTEL NETWORKS

NEW WINDSOR
INVOICE Exhibit 1
Sched. 1.03

NO. *** B1459829
QUOTE INVOICE NUMBER AND
DATE ON ALL CORRESPONDENCE

PAGE 1

SOLD TO:				REMIT TO:					
NEW WINDSOR TELEPHONE CO. ATTN: MARY LINKER 305 S. FIFTH STREET NEW WINDSOR, IL 61465				Nortel Networks Inc. 3985 Collection Center Drive Chicago IL 60693					
SHIP TO:				TERMS		PURCHASE ORDER NO.			
				NET 30 DAYS		SEE BELOW			
				INVOICE DATE		CUSTOMER ID			
				02/21/01		1416000			
SHIP DATE		ORDER ID		JOB NO.		SITE LOCATION		ADDRESS CODE - GEO CODE	
		HH9192		HH9192		NEW WINDSOR ,IL		01 141315423	
LINE NO.	QUANTITY	CPC CODE	DESCRIPTION				UNIT PRICE	TOTAL AMT	
			ENGINEER, FURNISH AND INSTALL AN EXTENSION AT NEW WINDSOR						
			** PURCHASE ORDER NUMBER IS SRTEN AGREEMENT						
0050	1.00		APPL. SOFTWARE				5000.00	5000.00	
0060	1.00		ENGINEERING				5000.00	5000.00	
0070	1.00		INSTALLATION				3000.00	3000.00	
0080	1.00		MATERIALS				4625.00	4625.00	
9996			STATE TAX				66.2500	289.06	
<p>IF THERE ARE ANY QUESTIONS CONCERNING THIS INVOICE PLEASE CONTACT: PAM RUGG (972) 684-8190</p> <p>PLEASE CHECK THE REMIT TO ADDRESS ON THIS INVOICE... WE HAVE MADE SOME CHANGES..... THANK YOU.</p>									
<p>NOTE- PAST DUE AMOUNTS MAY INCUR INTEREST CHARGES.</p> <p>ORDER SUBJECT TO TERMS AND CONDITIONS OF SALES CONTRACT.</p> <p>MATERIAL MUST NOT BE RETURNED WITHOUT OBTAINING WRITTEN AUTHORIZATION</p>							SUBTOTAL		\$17,625.00
							SALES TAX		\$289.06
							PREPAID FREIGHT		
							TOTAL AMOUNT		\$17,914.06

36,140.62

4-10-01
W#11083

NORTEL NETWORKS

INVOICE

NO. *** 81460295

QUOTE INVOICE NUMBER AND
DATE ON ALL CORRESPONDENCE

New Windsor Teleph

Company
Exhibit 1
Sched. 1.04

PAGE 1

SOLD TO:				REMIT TO:				
NEW WINDSOR TELEPHONE CO. ATTN: MARY LINKER 305 S. FIFTH STREET NEW WINDSOR, IL 61463				Nortel Networks Inc. 3985 Collection Center Drive Chicago IL 60693				
SHIP TO:				TERMS		PURCHASE ORDER NO.		
				NET 30 DAYS		LOA		
				INVOICE DATE		CUSTOMER ID		
				02/23/01		1416000		
SHIP DATE		ORDER ID		JOB NO.		SITE LOCATION		
		HH8254		HH8254		NEW WINDSOR , IL		
						01 141315423		
LINE NO.	QUANTITY	CPC CODE	DESCRIPTION			UNIT PRICE	TOTAL AMT	
			ENGINEER, FURNISH AND INSTALL AN EXTENSION AT NEW WINDSOR					
0040	1.00		ENGINEERING			5000.00	5000.00	
0050	1.00		INSTALLATION			3000.00	3000.00	
0060	1.00		MATERIALS			9625.00	9625.00	
9996			STATE TAX * 06.2500				601.56	
<p>IF THERE ARE ANY QUESTIONS CONCERNING THIS INVOICE PLEASE CONTACT: PAM RUGG (972) 684-8190</p> <p>PLEASE CHECK THE REMIT TO ADDRESS ON THIS INVOICE... WE HAVE MADE SOME CHANGES..... THANK YOU.</p>								
<p>NOTE- PAST DUE AMOUNTS MAY INCUR INTEREST CHARGES.</p> <p>ORDER SUBJECT TO TERMS AND CONDITIONS OF SALES CONTRACT.</p> <p>MATERIAL MUST NOT BE RETURNED WITHOUT OBTAINING WRITTEN AUTHORIZATION</p>						SUBTOTAL		\$17,625.00
						SALES TAX		\$601.56
						PREPAID FREIGHT		
						TOTAL AMOUNT		\$18,226.56